



DAVE ROBERTSON
PRESIDENT AND COO

October 4, 2010

Dear co-worker,

As Koch company employees, we have a lot at stake in the upcoming election. Each of us is likely to be affected by the outcome on Nov. 2. That is why, for the first time ever, we are mailing our newest edition of *Discovery* and several other helpful items to the home address of every U.S. employee.

This *Discovery* features election-related information about how government decisions affect us, and about the proper role of business in society (creating value). Charles Koch's editorial reminds us why it is the policies and actions of politicians – not their personalities or political parties – that matter most. To help set the record straight, we've also included an informative reprint from the *Washington Examiner*.

Included in this packet is a page with some helpful reminders about voter registration and advance balloting options in your state. If you're not registered to vote, your voice cannot be heard at the ballot box.

For most of you, we've also enclosed a listing of candidates supported by Koch companies and KOCHPAC, the political action committee for Koch companies. Of course, deciding who to vote for is a decision that is yours and yours alone, based on the factors important to you. Koch and KOCHPAC support candidates we believe will best advance policies that create the economic conditions needed for employees and businesses such as ours to survive and prosper.

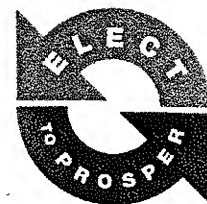
Many employees continue to request information about Koch products. After all, it makes sense to support our co-workers by buying the products they make. The enclosed wallet cards should make it easier to remember some of our most popular brand names.

We believe it is essential for all employees to be informed and educated voters. I encourage you to do your homework and Elect to Prosper at the ballot box next month.

Sincerely,

A handwritten signature in cursive script that reads 'Dave'.

Dave Robertson
President and COO
Koch Industries, Inc.



Washington

VOTER REGISTRATION DEADLINE

Oct. 25 Monday

ELECTION DAY

Nov. 2 Tuesday

GENERAL EARLY VOTING

IN PERSON BEGINS

Oct. 15 Friday

BY MAIL APPLICATION DUE

Oct. 15 Friday

The following candidates in your state are supported by Koch companies and KOCHPAC, the political action committee for Koch companies. We believe these candidates will best advance policies supporting economic freedom.

U.S. Senate

Dino Rossi (R)

U.S. House

Jaime Herrera (R)

District

3

State Senate

District

Bob Morton (R)

7

Jerome Delvin (R)

8

Janae Holmquist (R)

13

Jim Honeyford (R)

15

Doug Ericksen (R)

42

State House

District

JT Wilcox (R)

2

Jay Rodne (R)

5

Shelly Short (R)

7

Joel Kretz (R)

7

Cary Condotta (R)

12

Bruce Chandler (R)

15

Ed Orcutt (R)

18

State House continued...

District

Ann Rivers (R)

18

Brian Blake (D)

19

Dean Takko (D)

19

Richard Debolt (R)

20

Jake Fey (D)

27

No candidate authorized this ad. It is paid for by Koch Industries, Inc., 316.828.5500, 4111 East 37th Street North, Wichita, Kansas 67220, and not authorized by any candidate or candidate's committee.



**Elect to
Prosper.**

KOCH



Discovery

OCTOBER 2010

KOCH

FLINT HILLS
resources

INVISTA

GP Georgia-Pacific

THE QUARTERLY NEWSLETTER OF KOCH COMPANIES

The future of economic freedom

On Nov. 2, the United States will hold an important mid-term election.

At stake will be control of the U.S. Congress, 39 state governorships and thousands of other state and local offices.

High unemployment, record deficits, a sluggish economy and a swelling federal government have become flash point issues for millions of concerned Americans of every political persuasion.

For the nearly 50,000 Koch company employees in the United States, this election is an opportunity to help decide the future of economic freedom.

Heavy hitter

According to the International Monetary Fund, the United States accounts for about one-fourth of the world's total output of goods and services, and one-fifth of the world's purchasing power.

Like it or not, what's bad for the United States – including misguided federal policies that undermine economic freedom – is usually bad for the rest of the world.

What has proven to be best for all societies is economic freedom.

Citizens on every continent enjoy more prosperity, cleaner environments, longer lives and higher literacy rates in economically free societies.

That's why, for more than 40 years, Koch Industries has openly and consistently supported the principles of economic freedom and market-based policies.

The challenge

Unfortunately, these values and principled point of view are now being strongly opposed by many politicians (and their media allies) who favor ever-increasing government.

Government – like fire, water, chemicals and most everything – is productive at some level and destructive at others.

In the United States, government has now grown to such a level that it is choking American entrepreneurship and hurting the nation's international competitiveness.

Even worse, recent government actions are threatening to bankrupt the country.

This can only stifle economic growth and job creation, which in turn will significantly reduce the standard of living of American families.

To preserve the nation's economic viability and individual freedoms, this explosive growth must be reversed.

There are, of course, plenty of politicians and critics who feel otherwise.

Many of them have been quite vocal in their attacks on Koch Industries and its owners, as well as other Koch companies and their employees.

However, as New York Senator Daniel Patrick Moynihan famously said, one is

entitled to one's own opinions, but not to one's own facts.

And the facts are that the overwhelming majority of the American people will be much worse off if government overspending is allowed to bankrupt the country.

Fateful warning

When Thomas Jefferson was inaugurated President of the United States in 1801, he warned about a particularly destructive way of thinking.

It is wrong, he said, to punish someone for working harder or being more successful than someone else.

The American people will be much worse off if government overspending is allowed to bankrupt the country.

He warned against “wasting the labors of the people under the pretense of taking care of them”

and taking from some to give to others “who have not exercised equal industry and skill.”

More than 200 years later, the destruction of economic freedom that Jefferson warned against is being vigorously promoted by this administration and many elected officials.

In the United States, the best antidote to this kind of over-reaching government is the power of the ballot box.

That was true in 1801, and is just as true today.

www.kochfacts.com
<http://kcief.khc.local/>

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Postal Pipeline

I was just flipping through my latest edition of *Discovery* magazine when – Wow! – an article about Koch Knight's 100th anniversary!

I don't know why, but I just never expected it. I've had a smile on my face ever since. Here's to 100 more!

Greg Weakland
Manager, manufacturing operations
Koch Knight
East Canton, Ohio



Koch Knight employees celebrated the 100th anniversary of their company on July 10.

My compliments to everyone at Koch for an outstanding company newsletter. I picked up the July issue of *Discovery* on a recent visit to Georgia-Pacific's facility in Crossett, Ark.

I had heard that Koch Industries was a proud, successful and conservative company. It is refreshing to read a company newsletter that amplifies sound, conservative principles.

Best of luck to you and your organization.

Matt Halloran
Regional sales manager
Long Reach/Allied Systems, Co.
Dallas, Texas

I am a GP employee at the Muskogee Mill, a towel and tissue facility.

I have just read *Discovery* for the first time, and found it interesting and informative.



Matador Cattle Company's Texas ranch has won two significant environmental awards in the past six months.

The Perspective column on the last page of the July issue cited a column in the January 2010 edition by Charles Koch.

I wanted to read it, but had trouble accessing the link to earlier newsletters.

Can you help?

Scott Price
Muskogee, Okla.

Perspective editorials (and entire issues of *Discovery*) are available online at www.kochind.com. Just click on Newsroom, then Publications. At the bottom of the *Discovery* section on the Publications page is a link to previous issues dating back to January 2007.

It is my pleasure to inform you that the Matador Ranch has been selected as the 2010 recipient of the Outstanding Rangeland Stewardship Award from the Texas Section of the Society for Range Management Texas and Southwestern Cattle Raiser Association.

The award will be presented at TSSRM's annual meeting in Odessa, Texas, in October and recognized next March at the TSCRA meeting.

This award will also be nominated for the 2011 National Cattleman's Beef Association's Regional Environmental Stewardship Award.

If selected as the regional winner, your nomination will compete nationwide for NCBA's National Environmental Stewardship Award.

Congratulations on your award. You have certainly earned it.

Jeff Goodwin
Rangeland Management Specialist
Grazing Land Conservation Initiative
U.S. Department of Agriculture
Cleburne, Texas

Charles, the *New Yorker* article about Koch is the most unrealistic description of you and your company I can imagine.

The environment you've created for your employees, this community and America reflects the highest standards possible.

These three groups have been rewarded by your efforts to advance economic freedom and the limited role of government in our society.

My wife and I thank you for what you are doing for all Americans.

Bob Buford
Wichita, Kan.

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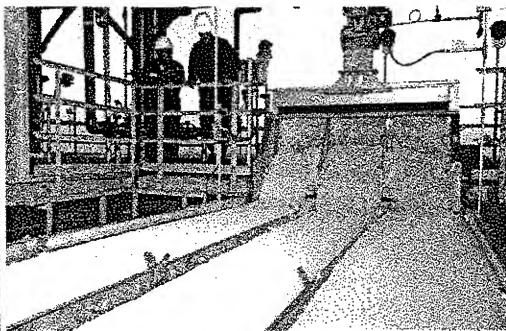
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Kingston - An MBM® session in Ontario drew a capacity crowd.



Corpus Christi - These sulfur pellets are destined for markets in Africa, Asia and South America.



Shanghai - High school Junior Achievement members visited INVISTA's offices on "Shadow Day."

Canada - INVISTA's largest site (in terms of employees) is not in Delaware, Texas, the Carolinas or even China. That honor goes to INVISTA's Kingston, Ontario, facility, with about 900 employees.

Kingston is not only INVISTA's largest site, it is the largest airbag yarn manufacturing facility in the world.

On June 25, INVISTA's Kingston leadership team co-sponsored a Market-Based Management® workshop in conjunction with St. Lawrence College Business Development.

That day-long session, which was open to the public, drew a capacity crowd of more than 130 attendees.

Among those attending were government employees, business leaders, entrepreneurs and employees of not-for-profit organizations.

Attendees were continually challenged to think of ways they could apply the principles and dimensions of MBM in their own roles and organizations.

Several of the senior civil servants who attended the workshop wasted no time in doing just that.

They made it a point to hold a follow-up session at Kingston City Hall, where they discussed how to apply what they had learned to their government agency.

Texas - Last year, the U.S. Patent and Trademark Office issued a patent for a new method of making prilled - or pelletized - sulfur.

That new technology - capable of producing 2,000 metric tons of pellets per day - is now up and running for Koch

Sulfur on a 16-acre site next to Flint Hills Resources' Corpus Christi, Texas, refinery complex.

The location makes great business sense for two reasons:

First, FHR's refinery ends up with tons of sulfur as a byproduct of refining crude oil. Lots of customers want that sulfur for making phosphate fertilizer or sulfuric acid.

Second, and just as important, the port of Corpus Christi gives Koch Sulfur Products Co. a perfect staging area for delivery to customers worldwide.

"We've been marketing sulfur for more than 15 years," said Douglas Towns, general manager of global sulfur marketing, "but almost all of that has been molten sulfur."

Molten sulfur can't be loaded onto big cargo ships, only short-haul barges. But prilled sulfur is easily loaded onto large, ocean-going vessels. Once loaded, prilled sulfur can be shipped anywhere in the world.

"Our first load of prilled sulfur just shipped out for South America," said Towns. "Africa and Asia are next."

China - The idea of having young people "shadow" an adult worker on the job is an idea that has gone global.

On August 13, more than two dozen Chinese students visited INVISTA's Shanghai offices as part of Junior Achievement's Job Shadow Day.

The 25 students were all from Xiang Ming High School in the Luwan district, the same district where INVISTA's office

is located. They were joined by 16 corporate volunteers.

Students were given a brief introduction to the company and a tour of the office before shadowing INVISTA employees for half a day.

One of the highlights of the office tour was a 10-minute video conference with employees at INVISTA's office in Geneva, Switzerland, six time zones away.

INVISTA's Shanghai volunteers made several detailed presentations, helping the students understand how the business operates, who its customers are and what a "real world" job is like.

At the end of the half-day session, the students returned the favor by making a presentation summarizing the lessons and insights they had gained while shadowing.

"Junior Achievement's staff told us this was one of the best Job Shadow Days they've seen so far," said Anita Cai, INVISTA's China communication and public affairs manager.

"We could see that the students really learned something about our company and had some thoughts on their career development."

Cai attributes the overall success of the event to the knowledge and initiative of INVISTA's volunteers. They not only prepared the corporate presentations, but helped co-workers with ideas for facilitating conversations.

"Our volunteers are great. They really created an opportunity for us to learn from each other and have fun together."



What's a business to do?

We live in an era when many people – including policymakers and media celebrities – view businesses and corporations with disdain or intense suspicion.

Their way of thinking begs a simple question: What is the primary role of business?

Is it to create jobs and provide benefits? Help advance a social agenda? Or just to make as much money as possible, by exploiting customers and employees?

As a matter of principle, Koch companies believe there is only one reason for any business to exist: creating value.

"Value creation," says Charles Koch, "involves making people's lives better."

"It means contributing to prosperity in society. If a company's not doing that – enhancing the well-being of society – then it needs to go out of business."

"We all tend to pursue our own interests, but in a true market economy we can only prosper long-term by providing others with what they value."

History and sound theory have both shown that the only way to consistently create value for society is to faithfully follow a set of reality-based principles.

For Koch companies, those are the 10 MBM® Guiding Principles, which include integrity, compliance, value creation, humility and respect.

Principled approach

Koch employees are among the world's most efficient at making products and providing services that customers value more highly than their alternatives.

Those products build and heat homes, protect the environment, help grow food, fuel cars and planes, purify water, help prevent disease, improve clothing and make vehicles safer.

In producing all these and many other products and services, Koch companies also strive to use less resources.

Those resources (economists call them inputs) can include labor, raw materials, energy and capital.

For example, Georgia-Pacific operates a pulp mill (see story on page 6) that has greatly reduced the amount of water needed to make the pulp that goes into disposable diapers and other products.

In doing so, GP Cellulose has freed up more groundwater – a very important resource – for other uses.

Value Creation MBM® Guiding Principle 3

Create real, long-term value by the economic means. Understand, develop and apply MBM to achieve superior results. Eliminate waste.

What's more, efficient use of groundwater has helped prevent expansion of a saltwater plume in the aquifer that could foul public drinking water supplies.

Without profits, it wouldn't have been possible to invest the \$400 million needed to improve efficiency – thereby creating more value – at that pulp mill.

Similar stories can be told across many other Koch companies.

At Flint Hills Resources, more than \$100 million in investments (made possible by profits) allowed the Pine Bend Refinery to produce ultra-low sulfur gasoline years before it was mandated by the federal government.

That product – called Blue Planet – was highly valued by Minnesotans concerned about air quality.

Biting the hand

In a system of economic freedom, a company will generate long-term profits only if it uses resources in a way that consumers value more than alternative uses.

Large or small, a company will not stay in business for long if it is not truly creating value. Unfortunately, the same cannot be said for governments.

Most governments consume massive amounts of resources – primarily labor and capital – much of which doesn't create value.

Was it worth more than \$200 million of U.S. taxpayers' money to build an airport in Johnstown, Pa., that services just three commercial flights per day?

Although it was never built, would the federal government have created real, long-term value by spending nearly twice that much for the infamous "bridge to nowhere" in Alaska?

"It is essential that use of resources is directed by consumers, rather than politically," says Charles Koch.

"When resources are directed for political ends, the result is misallocation."

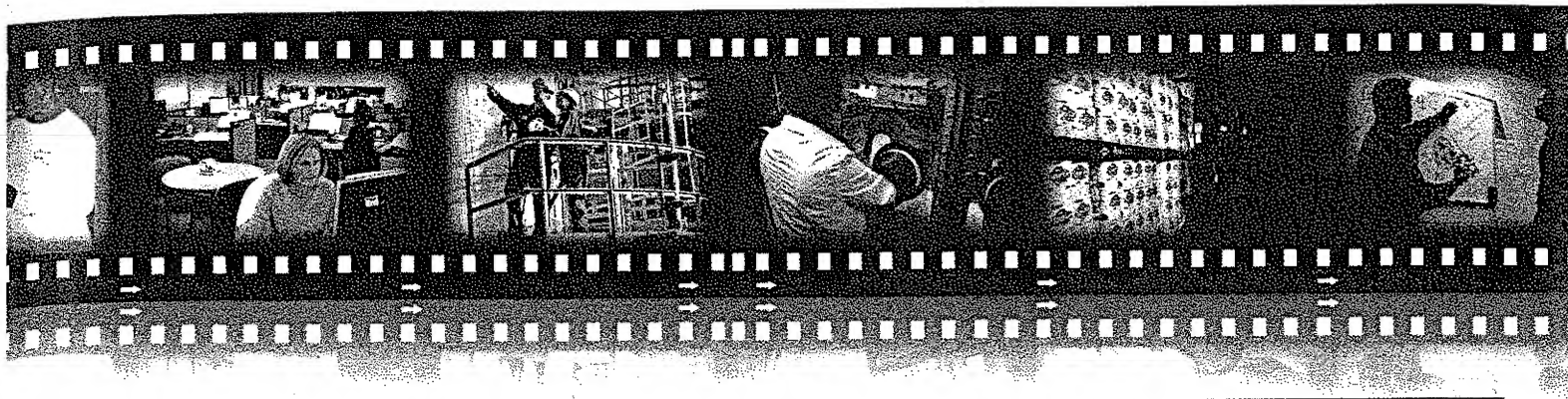
What about jobs?

Job creation is one of today's hottest topics.

Governments of many nations – liberal, conservative and even Communist – are under enormous pressure to "do something" about high unemployment and lagging job growth.

In reality, it is businesses of all sizes in the private sector, not the government, that tend to produce the sorts of jobs that create real, long-term value.

Government interventions – particularly controls, subsidies, barriers to entry, tariffs and bailouts – misapply resources,



thwarting the efficient production of what people value.

An economist would say such actions replace activities that convert resources to higher-value products with activities that convert them to lower-value products.

"A real and lasting contribution to society requires the creation of real, long-term value."

- Charles Koch

Think about that for a moment.

If a business activity is really creating value, should it need to be subsidized?

Similarly, if a business is destroying rather than creating value, shouldn't it be allowed to go out of business, rather than be subsidized or protected?

Productivity

Productivity is more than a business buzzword. It is a key driver of success for all of society.

The more productive we are in enhancing the value of resources, the better off virtually everyone is going to be.

By contrast, anything that interferes with productivity is going to make people less well off, especially the poor, who are least capable of weathering economic shocks.

It's important to realize what makes us better off. It's not just how much money we have, but the availability of the goods and services we value.

In the old Soviet Union, lots of people had rubles to spend, but there was very little of value to buy. Government policies resulted in chronic shortages of food, clothing and shelter.

Similarly, in any nation where government policies systematically destroy value, shortages of valued goods and services should be expected.

Good idea?

Government-mandated transfers from one group to another don't solve the problems of lower productivity and higher unemployment.

In fact, they make those problems worse.

If the government insists that someone should be paid \$50 per hour in wages and benefits, but that person only creates \$30 worth of value, no one will prosper for long.

In a scenario such as this, as businesses lose money because of the government's policy, employees will end up losing their jobs and fewer (if any) new employees will be hired.

Consequently, the result of what sounded good – making a guaranteed \$50 per hour – will not be prosperity, it will be higher unemployment.

Anything that undermines the mobility of labor, such as policies that make it more expensive and difficult to change where people are employed, also increases unemployment.

In Europe, where stringent labor laws make it difficult and expensive to terminate someone – even for cause – this has become especially troublesome.

Similar policies that distort the labor market – such as minimum wage laws and mandated benefits – contribute to unemployment.

Policies that make it difficult to get permits to build plants and equipment that are more efficient lower productivity and reduce wages.

All these obstacles interfere with the ability to create valued products and services, adversely affecting consumers, employees and employers.

Alternatives

In *The Science of Success*, Charles Koch wrote: "Societies that value freedom and prosperity protect their citizens' rights to free speech, which greatly facilitates the discovery and the dissemination of knowledge." What we see in many nations today is just the opposite.

Citizens who are openly critical of the European Union bureaucracy in Brussels or the out-of-control government of the United States are being shouted down by politicians, government officials and their media and other allies.

Too many government elites think they know what's best for citizens and ignore the wishes of the citizens themselves.

Those in power tend to want to control more and more, all in the name of making things "fair." To do so, they pile on more rules, more regulations, more restrictions, more programs and more costs.

As Charles Koch has noted, this kind of thinking is a recipe for disaster – both for a company and for a government.

"Over-specifying and enforcing particulars undermines prosperity," wrote Koch. "It also facilitates corruption and abuse of power, subservience and stagnation."

After many years of disastrous policy decisions in the United States, it will be interesting to see who voters support at the ballot box this November.

Will it be those candidates who believe that more government is the answer, and that government – rather than consumers – should decide which businesses succeed or fail?

Or will it be those candidates who believe the true role of business is to create value for society by serving customers, not politicians?

<http://kcief.khc.local/>

Water: a liquid asset

Every Koch company – large or small – is dependent on water.

Georgia-Pacific needs it for pulp and paper-making processes.



Georgia-Pacific's Toledo, Ore., containerboard pulp and paper mill.

INVISTA couldn't make nylon, polyester or spandex without it.

Flint Hills Resources uses it to make the steam that powers several processing units.

Koch Fertilizer and Koch Minerals rely on it for transporting products.

Koch Membrane Systems was created to purify and desalinate it.

KS&T's Rotterdam refinery wouldn't exist without its harbor access.

And Matador Cattle Co. needs it for hydrating cattle – and thirsty cowboys.

Water footprints

Tim Go, managing director of Koch Industries' operations excellence team, pays close attention to water usage.

"Last year, we organized our first-ever KII-wide water team with seven different Koch companies represented," Go said. "One objective was to conduct an informal survey of water usage across all of our U.S. facilities."

"We wanted to get an idea of how much water Koch companies bring in, how much we consume and how much we return or discharge."

The goal is to get an understanding of Koch Industries' total water "footprint."

In the process of studying water use, several impressive success stories have emerged.

Water, water everywhere

Georgia-Pacific, which uses the most water of any Koch company, has spent several years focusing on resource preservation and reducing its water consumption.

That focus has yielded some notable results. GP now uses 9 percent less water in its paper-making operations than it did 10 years ago.

Perhaps its most impressive success story comes from the GP Cellulose pulp mill in Brunswick, Ga. This mill is the world's largest producer of fluff pulp, used in making diapers and other hygienic products.

The Brunswick facility uses groundwater to process a daily average of 700 trucks of yellow pine and pine chips into fluff pulp. About 70 percent of its electricity used in the production process is self-generated.

Following Koch Industries' acquisition of the mill in 2004, more than \$400 million was invested to make the facility more efficient and more competitive.

Although the Brunswick mill has permits to withdraw up to 49 million gallons of water per day, improvements are dropping the total amount of water needed by almost half.

Prize-winning performance

Georgia-Pacific has won several awards for its water conservation efforts at other sites, including an Environmental Water Protection Award for its Cedar Springs, Ga., containerboard facility.

In Victoria, Texas, INVISTA's award-winning Wetland Environmental Science Education Encounter has given thousands of students hands-on experience with water conservation projects and other wetlands-related experiments.

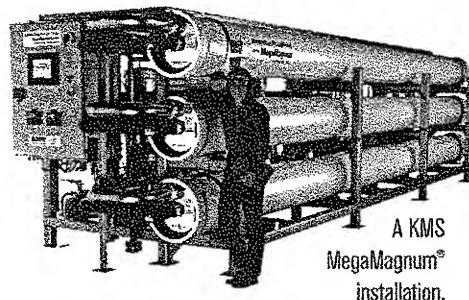
Flint Hills Resources' Pine Bend Refinery has won multiple Wastewater Treatment Operator awards from the Minnesota Pollution Control Agency.

FHR's Fort Worth, Texas, terminal has also been honored with a Star Award by the Fort Worth Water Department.

H₂O and RO

Koch Membrane Systems has invested years of research and tens of millions of dollars in developing technology designed to produce cleaner, safer water.

Earlier this year, KMS was named the international Water Technology Company of the Year.



Koch Membrane Systems has installed its patented MegaMagnum® reverse osmosis water filtration systems at locations as diverse as Queensland, Australia, and Waupun, Wisc.

The membranes in these systems can process millions of gallons of water per day, allowing more and more water to be safely reused or recycled.

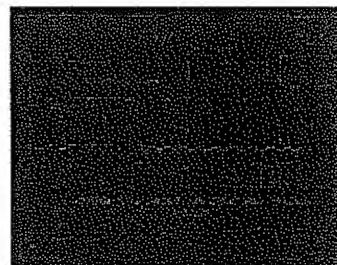
Fluid mechanics

When KII co-founder Fred C. Koch wrote his senior thesis at M.I.T. in 1922, he proposed a process for reducing wastewater flows from a Bangor paper mill into Maine's Penobscot River.

Koch designed a system for using spent black ash, a papermaking byproduct typically discarded with wastewater, as a fuel.

His design not only lowered fuel costs, but reduced the amount of effluent released into the river by several tons per day.

As it has for the 88 years since then, Koch Industries believes that careful use of resources – including water – is not only good news for the environment, but good business sense.



Fred Koch's 1922 senior thesis showed how to reduce wastewater discharges.



Noteworthy

The Battle – by Arthur C. Brooks, president – American Enterprise Institute.

What will the United States of America look like in the future?

Will it continue to be a land of entrepreneurs, individual opportunity and limited government?

Or will it become a European-style social democracy with swelling bureaucracies, income redistribution and state-controlled corporations?



Brooks believes this is a fundamental question that has to be answered.

“These competing visions are not reconcilable,” writes Brooks. “We must choose.”

Brooks believes the recent economic crisis created an element of

panic that has been manipulated by advocates of bigger government.

“The proponents of statism are not evil,” writes Brooks, “but they are dead wrong about what’s best.”

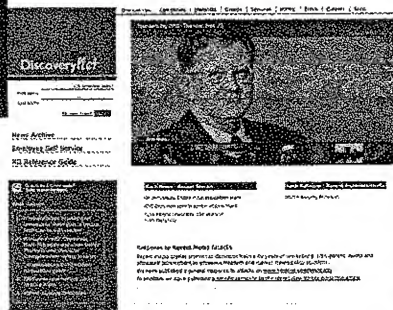
It is free enterprise, he writes, that “brings the most life satisfaction to the most people” and explains “our nation’s past success and the promise of better things to come.”

After criticizing both Republicans and Democrats for poor policy decisions in recent years, Brooks offers this solution: vote for those candidates, regardless of party affiliation, who are willing to take a principled stand in favor of free enterprise.

“What truly matters is principle, not political power.”

“Entrepreneurship was and is the purest expression of America’s free enterprise culture and the essence of the American Dream.”

– Arthur C. Brooks



Discovery process

Fifteen years ago, Koch Industries launched two new internal communication tools – *Discovery* newsletter and the Discovery-Net intranet.

The word “discovery” was emphasized because of Koch’s vision: “To become a company dedicated to discovery – a company where employees are encouraged and motivated to look for and seize opportunities to improve our business.”

Page-turner

Discovery debuted in April 1995 as a six-page publication.

That first issue included stories about the purchases of a Corpus Christi refinery from Kerr McGee and a South Texas pipeline system from Exxon.

In 1999, *Discovery* expanded to its current eight-page format and the first Year In Review feature was published. The January 2000 issue included a 100-year “Century of Discovery” timeline.

Issues of *Discovery* began circulating electronically in 2006 and are accessible by anyone at kochind.com as well as internal, employee-only sites.

Many employees have asked why Koch goes to the expense of printing *Discovery*.

The simplest answer is because the editorial board believes, in a world overwhelmed with electronic messaging, a printed copy of *Discovery* is more likely to be read, remembered and shared.



First issue of *Discovery*.



Discovery-Net

When D-Net was launched on June 1, 1995, it consisted of a home page with links to four business-owned sites.

Its audience was limited to the handful of people with Web browsers on their PCs.

In the words of one employee, it was a “kludge” (computer slang for a hastily and badly assembled collection of parts).

Even so, businesses and employees saw the value in this employee-only intranet. Within three years D-Net was providing an on-ramp to 129 business sites and receiving more than 1 million hits per day.

Delinea, a Koch venture that focused on web development, redesigned the D-Net home page in 2000. It looked a lot better, but the search function didn’t work well.

Koch Business Solutions spent several months this past summer re-engineering D-Net to make it more helpful and much more accessible.

The biggest change is that Koch company employees at any business – including INVISTA and Georgia-Pacific – can now access D-Net from their workstations.

Plans for additional improvements – including a much better search function – are already in the works.

Although both *Discovery* and D-Net have undergone some recent changes, their essential purpose remains the same – to promote knowledge-sharing among all Koch company employees.



All Koch company employees can now access D-Net.

<http://dnet.koch.com>

<http://www.kochind.com/newsroom/discovery.aspx>

Charles G. Koch Perspective

Chairman and CEO, Koch Industries, Inc.

I am often asked which U.S. presidents pursued the best and worst economic policies. My answers may surprise you.

In evaluating a President, I believe it is essential to look past his popularity, party affiliation and family background.

Instead, our focus should be on the effects of his economic policies. Results, not intentions, are what matter most.

During the twentieth century, there were several presidential standouts – both good and bad. I want to discuss one of each.

In both cases, their policies changed the direction of the entire nation, affecting the lives of millions of Americans.

Silent Cal

Calvin Coolidge was Vice President under Warren G. Harding, who became President in 1921.

At that time, the United States was in a deep depression. Unemployment was at 20 percent, taxes were high and federal debt was ballooning.

Harding insisted on cutting taxes, reducing the national debt and cutting the federal budget (the opposite of what his predecessor, Woodrow Wilson, had done).



Following Harding's sudden death in 1923, Coolidge wisely chose not only to maintain many of those policies, but to extend them.

In his first address to Congress, Coolidge called for further tax cuts, fewer subsidies and avoidance of foreign entanglements.

"Perhaps the most important work that this session of the Congress can do," Coolidge said, "is to continue a policy of economy and further reduce the cost of government."

Coolidge had a deep understanding of the need to limit government growth. His belief in property rights was reflected in his commitment to cutting taxes.

"I want taxes to be less," said Coolidge, "that the people may have more."

Coolidge signed into law Revenue Acts that lowered income tax rates from 73 percent to 24 percent. He, together with Harding, also cut federal expenditures in half.

"Anybody can reduce taxes," Coolidge said, "but it is not so easy to stand in the gap and resist the passage of increasing appropriation bills which would make tax reduction impossible."

Where were the results of these policies?

It is no coincidence that the Harding/Coolidge era was one of the most prosperous in U.S. history. Gross National Product, wages, profits, productivity and the overall standard of living rose substantially.

Although he was quite popular and faced no term limits, Coolidge refused to run for re-election in 1928. Today, it is rare to find any politician who wishes to self-limit his time in office.

Cal's successor

When Coolidge decided to step down, Herbert Hoover – who was Secretary of Commerce for both Harding and Coolidge – secured their party's nomination and went on to win the presidency.

Hoover served just one term in office. During those four years he essentially reversed the course of federal policy.

Hoover pushed for higher taxes and farm subsidies, and proposed costly pension entitlements. He also signed the infamous Smoot-Hawley tariff bill, a protectionist policy that helped cause global economic depression.

Under Hoover, federal spending roughly doubled and personal income tax rates jumped from 25 percent to 63 percent. He raised corporate taxes, too, and doubled the estate tax.

Hoover also pressured business leaders to keep wages artificially high, contributing to massive unemployment.

By the time he left office, the U.S. economy was in a shambles and the

Great Depression had arrived.

Hoover is rightfully blamed for much of the economic calamity that left millions of Americans unemployed and penniless.

But it is wrong to say he caused the Great Depression by following free-market principles. Hoover did just the opposite. He undermined economic freedom.

Those mistakes were then compounded by Franklin Delano Roosevelt's "New Deal," which prolonged the Great Depression.

Rex Tugwell, an architect of FDR's policies, wrote: "We didn't admit it at the time, but practically the whole New Deal was extrapolated from programs Hoover started."

Election time

The United States is not electing a president this year, but hundreds of other important offices will be on the ballot Nov. 2.

When evaluating a candidate for public office, I ask a simple question: **Does this candidate support economic freedom?**

Economic freedom does not "belong" to any political party. After all, both Coolidge and Hoover were Republicans.

Candidates of any party who believe we need bigger government, more regulations, higher taxes, increased spending and borrowing, and more centralized decision-making are threats to economic freedom.

Like Hoover, their policies leave all of us – especially the poor – much worse off.

Candidates who support economic freedom realize our government is already too big and intrusive, and is spending, borrowing, taxing and controlling too much.

They support a strong and efficient government, but one that operates within strict Constitutional limits and in the best long-term interests of society.

If you are concerned about creating jobs, growing our economy and enhancing our quality of life, then you need to be concerned about electing candidates that support economic freedom.

This is true everywhere and at all times, not just in the United States this November.

www.kochind.com/viewpoint/

What if all businessmen were as dedicated to free markets as the Kochs?

BY MARK TAPSCOTT, Editorial Page Editor

Among the biggest obstacles to restoring American freedom and prosperity is the fact too many corporate executives are all too happy to play footsie with government bureaucrats, usually in an attempt to gain a competitive advantage over competitors.

Consumers - and taxpayers - are always the biggest losers when Big Government and Big Business get in bed together.

One result is that instead of having to put consumers first, the corporations put the bureaucrats first. Prices go up, the quality of service goes down, and not infrequently corruption eventually results (See Enron and cap-and-trade, for example).

But there are honest leaders in the corporate world who go a different way. Charles and David Koch of the Wichita-based Koch Industries are among the preeminent examples of such men and women.

They've built one of the world's largest private corporations based on the principles of free markets and competition.

For more than 40 years, the Kochs have also been aggressive supporters of those principles in the public policy arena, a fact that always flusters critics of economic freedom.

Most recently, the Kochs have been portrayed by some as part of a sinister cabal funding the Tea Party movement - a movement they applaud for its dedication to constitutional principles.

In the interest of setting the record straight, I asked Dr. Richard Fink, who heads the Charles G. Koch Charitable Foundation and serves as an executive vice president of Koch Industries, Inc. about Koch's role in the tea parties.

He could have just given me the usual PR fluff in response, but instead Fink provided frank answers to questions about what the Kochs actually support and why.

American politics and the economy would be infinitely better off if everybody in the business community would follow the Koch way.

Q: Koch has spent millions supporting scholars and advocates of economic freedom. Why?

A: Because decades of the study of theory and history have shown that economic freedom and market-based policies create the most opportunity and prosperity.

This is especially true for the poor, who are far better off in free societies. Years of enquiry and research confirm that economic freedom fosters productivity and innovation.

These, in turn, lead to better environmental protection, health and quality of life. It's true that societies based on individual freedom and markets, guided by the rule of law, aren't perfect. But they far outperform all known alternatives.

Q: What has been Koch's role in furthering these ideals? Has it changed over time?

A: Our first focus was on discovering what makes societies thrive over time. To do this, we sponsored systematic interdisciplinary research into understanding the conditions that allow individuals, institutions and societies to best provide for the overwhelming majority of people.

A second focus was on understanding why successful organizations and societies often undermine their own prosperity by instituting

policies that undo what originally made them prosperous.

And why do some relatively poor societies enact policies that improve their position while others stagnate?

We've tried to help people understand and apply the lessons of history so they can respond to society's challenges with better, more productive policies.

We see investments in the sciences as a means to an end: to make the world a better place. That goal never changes.

Q: Do you think you've made much progress toward that goal?

A: We certainly have helped develop better knowledge. More professors, programs, policy institutions and citizens understand what makes societies prosper than ever before.

However, if you look at the past 10 years – with the expansion of government bureaucracy and spending and a debt burden that threatens to bankrupt us all – it's clear we are losing ground.

We are no longer generating greater prosperity for society as a whole. We will continue to lose ground until government policymakers understand and are committed to fiscally responsible and productive policies.

Q: You are an economist and former professor. No offense, but neither of those is known for driving results or implementing tangible solutions. How do you respond to that?

A: Great point. Many of us with university or think-tank backgrounds often struggle to successfully move from theory to practice. Bridging the gap between theoretically sound ideas and productive solutions is challenging.

That's why we need more people who have practical, problem-solving experience and understand the critical role of economic freedom. This is especially true for those in government.

Q: To really get things done – to pass policies or deal with crises – doesn't day-to-day governing require elected officials to compromise their idealistic commitments?

A: That's a slippery slope. Those who compromise in the name of pragmatism usually end up with the opposite of what they were trying to achieve.

The same is true for dogmatists who insist on theoretically "pure" policies. Such policies are rarely implemented, but when they are, they often undermine most of what their advocates were trying to achieve.

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For example, after the fall of the former Soviet Union, well-meaning economists advocated the immediate deregulation of prices.

This was theoretically correct, but since the government still controlled the means of production, there was no real competition. Consequently, prices went through the roof and citizens were harmed.

To really solve problems, we must remain principled and pursue solutions that are well thought out and can be implemented. We call this principled entrepreneurship.

The best approach is to stay true to our constitutional principles of liberty and personal responsibility while insisting on practical policy solutions.

Q: Are you saying that policymakers, even if they have noble goals in mind, are hurting society by trying to help it in ways that you say would compromise economic freedom?

A: Unfortunately, many of the "new" or "pro-gressive" policies being promoted here in the

Q: What about the accusations that you are driving these activities – that they're corporate-sponsored 'astro-turf' rather than real grassroots movements?

A: That's nonsense. It's clear from the very personal and passionate expressions of concern at these events that they haven't been scripted or orchestrated.

Tea parties reflect a spontaneous recognition by people that if they do not act, the government will bankrupt their families and their country. They're absolutely right about that.

Now, if our work over the past 30 or 40 years has helped stimulate some of those citizens who are becoming more active, that's great, but it's a far cry from pulling strings.

What we have done is support the Americans for Prosperity Foundation, which has been active in various forms for nearly 30 years.

David Koch has been a steadfast supporter of that foundation, though Koch-related funding of AFP and the foundation has amounted to a small percentage of their overall funding in

uphold our constitutional principles and support fiscal responsibility.

Q: So back to AFP and other advocacy groups... There seems to be tension among organizations that presumably share similar goals.

For example, there's a lot of discussion about AFP and FreedomWorks – much of it focused on what role Koch does or doesn't play. What's up with that?

A: We applaud anyone willing to advance economic freedom and opportunity in an effective and civil manner. We don't – and can't – support every group out there.

We've never funded FreedomWorks, but to the extent they productively advance a free and prosperous society we certainly wish them well.

Our nation is facing serious challenges and has important policy decisions to make. We'll continue to encourage robust, respectful and intellectually honest discussions of key policy matters.

Because policymakers of both parties have strong short-term incentives (getting re-elected), they tend to create programs that undermine long-term prosperity.

That is why discussions of economic freedom and fiscal discipline are essential. Citizens must hold their lawmakers accountable for upholding the constitutional principles that helped our nation become productive and prosperous.

Q: So how do you feel about the Tea Parties and other activist groups weighing in on policy matters these days?

A: It is a very positive development that so many citizens have chosen to express their concerns about government growth and over-spending.

They are drawing attention to issues that are critical to the future of our country. Too many societies have allowed government burdens to drag down their standards of living, especially for their poorest citizens.

Citizens must become much more active and involved if our trend toward economic ruin is to be reversed. It's truly a bipartisan problem.

Our nation needs more people defending our constitutional principles in an effective and civil manner. Free societies depend on such dedicated efforts.

AFP and its state chapters have begun collaborating with tea party groups, and we're in favor of any group willing to constructively address irresponsible government policies.

Q: But how do you answer those who cite your support for AFP or others as evidence that you're just out to derail today's progressive agenda or the current administration's proposals?

A: There is nothing progressive about bankrupting our nation, and we believe proposals that are going to undermine our nation's future need to be derailed.

Reasonable people can differ on many things, but it defies common sense to think that our government's rate of growth is a positive thing.

It has spent and incurred liabilities exceeding the net worth of the entire nation. The past decade has clearly demonstrated that this is not a Democrat versus Republican issue.

For more than 40 years, our consistent, non-partisan commitment has been to further the study and discussion of economic freedom and our constitutional republic.

We have always pointed out the dangers of veering away from the principles that lead to prosperity. At the same time, we have always commended policy-makers from any party who

can make as much progress as possible.

Q: So we shouldn't expect to see Koch shy away from its education and policy efforts anytime soon?

A: Charles and David Koch have dedicated themselves to this, and I hope to continue for as long as I'm effective.

What we need most is for more citizens to speak out about how government spending is straining our economy. That's the best way to get more policymakers focused on the serious problems that spending and unfunded liabilities are creating for us all.

We will continue to advocate for economic freedom and do what we can to help promote market-based policy solutions as the best way to help our country thrive.

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